

time of making the lease, the lessor is engaged in the business of selling in arm's length transactions the same type and model of article. In case of a lease to which section 4217(b) of the Code does not apply, tax shall be computed and paid as provided in section 4216(c) of the Code and paragraph (a) of § 53.98.

(b) *Lessor engaged in business of selling.* The lessor will be regarded as being engaged in the business of selling in arm's length transactions the same type and model of an article as the one being leased if it periodically and recurringly makes bona fide offers for sale of such articles in the regular course of operation of its business, which offers if accepted would constitute sales at arm's length. Whether the offers are bona fide shall be determined on the basis of the facts in each case, such as sales actually made, the nature of the advertising, sales literature, and other means used to effectuate sales. It is not necessary that the offers for sale be made to the same class of purchasers as those to whom the article is being leased.

(c) *Same type and model of article.* To qualify as the "same type and model of article", the article offered for sale must be an unused article essentially the same in size, design, and function as the article being leased. Slight differences in appearance or accessories will not render articles dissimilar which are identical in all other respects.

(d) *Basis for tax—(1) Tax payable until total tax in paid.* In case of a lease of an article to which section 4217(b) of the Code applies, tax shall be paid on each lease payment in an amount computed by applying to such lease payment a percentage equal to the rate of tax in effect on the date of the lease payment. Such tax payments shall continue to be made under such lease, or any subsequent lease of the article, until the cumulative total of the tax payments equals the total tax. Lease payments made thereafter with respect to that article shall not be subject to tax. For definition of the term "total tax," see paragraph (e) of this section.

(2) *Changes in tax rates.* If the rate of tax is increased or decreased during a lease period, the new rate shall apply

to the lease payments made on and after the date of the change, but the amount of the total tax shall remain the same.

(e) *Total tax.* For purposes of this section, the term "total tax" means the amount of tax, computed at the rate in effect on the date of the first lease of the article to which section 4217(b) of the Code applies, which would be due on the constructive sale price of the article as determined under section 4216(b) of the Code and § 53.95, as if the article had been sold by a manufacturer at retail on such date.

(f) *Sale of article before total tax becomes payable.* If the lessor sells the article before the total tax has become payable, the tax payable on the sale shall be the lesser of the following amounts:

(1) The difference between:

(i) The total tax, and

(ii) The aggregate tax applicable to lease payments already received; or

(2) A tax computed, at the rate in effect on the date of the sale, on the price for which the article is sold. For purposes of (f)(2) of this section, the provisions of section 4216(b) of the Code for determining a constructive sale price shall not apply if the sale is at arm's length. If the sale is not at arm's length, the tax referred to in (f)(2) of this section shall be computed on a constructive sale price as provided in § 53.95.

(g) *Sale of article after total tax has become payable.* If the lessor sells an article after the total tax has become payable, the tax imposed under chapter 32 of the Code shall not apply to such sale.

USE BY MANUFACTURER OR IMPORTER CONSIDERED SALE

§ 53.111 Tax on use by manufacturer, producer, or importer.

(a) *In general.* Section 4218 of the Code imposes tax in respect of certain uses of articles by the actual manufacturer, producer, or importer thereof. This section also applies in respect of the use of articles by any other person who, pursuant to a provision of chapter 32 of the Code, is considered to be, or is treated as, the manufacturer or producer of the articles. See, for example,

section 4223 of the Code relating to articles purchased tax free for use in further manufacture.

(b) *Taxable articles in general*—(1) *Application of tax.* If the manufacturer, producer, or importer of an article taxable under chapter 32 of the Code uses the article for any purpose other than that indicated in paragraph (b) (3) of this section, he shall be liable for tax with respect to the use of such article in the same manner as if the article were sold by him.

(2) *Taxable use in manufacturer of nontaxable articles*—(i) *In general.* In the case of an article to which paragraph (b)(1) of this section applies, tax attaches when the manufacturer, producer, or importer of the articles uses it as material in the manufacture or production of, or as a component part of, another article which is not taxable under chapter 32 of the Code, regardless of the disposition made of such other article. (See paragraph (c) of § 53.115 for computation of tax on such use.)

(ii) *Types of use in manufacture of nontaxable articles.* Taxable use may consist of the incorporation of a taxable article into a nontaxable article. Taxable use may also result from the combining of a taxable article (or the components thereof) with a nontaxable article (or the components of a nontaxable article) resulting in a combination end article which itself is not taxable. Although the taxable article may not be a completely separable unit, within the contemplation of the law a taxable article has been produced and incorporated in the combination end article.

(3) *Nontaxable use in manufacturer of taxable articles.* The tax on the use of an article to which paragraph (b)(1) of this section has application shall not apply if the article is used by the manufacturer, producer, or importer thereof as material in the manufacture or production of, or as a component part of, another article taxable under chapter 32 of the Code to be manufactured or produced by him. It is immaterial what disposition is made of such other article.

(c) *Use after lease.* If the manufacturer, producer, or importer of a taxable article leases such article and thereafter uses the article, he incurs li-

ability for tax on such use as provided in these regulations to the same extent as if the article were sold after being leased. See section 4217 of the Code and the regulations thereunder in this subpart for application and computation of tax in case of leased articles.

(d) *Time of application of tax.* In the case of a taxable use of an article by the manufacturer, producer, or importer thereof, the tax attaches at the time such use begins. If tax applies by reason of the sale of an article by the manufacturer, producer, or importer thereof on or in connection with his sale of another article, the tax attaches at the time of the sale of such other article.

(e) *Exemptions because of other statutory provisions.* Tax does not apply on the use of an article by the manufacturer, producer, or importer thereof if under the applicable provisions of the Code the sale of the article for a similar use would not be subject to tax. Also, tax need not be paid with respect to the use of an article by the manufacturer, producer, or importer thereof if such use would qualify, under the provisions of section 6416(b) of the Code, for credit or refund of the tax paid.

[T.D. ATF-308, 56 FR 303, Jan. 3, 1991]

EDITORIAL NOTE: At 56 FR 31084, July 9, 1991, § 53.111 was amended by removing the word “manufacturer” and adding the word “manufacture” in the heading of paragraph (a)(2), and removing the word “manufacturer” and adding the word “manufacture” in the first sentence of paragraph (a)(3), effective July 9, 1991; however, these subparagraph designations are not included in § 53.111(a). The issuing agency will publish a correction in the FEDERAL REGISTER at a later date.

§ 53.112 Business or personal use of articles.

(a) *Business use.* Section 4218 of the Code applies to the use by a person, in the operation of any business in which he is engaged, of a taxable article which has been manufactured, produced, or imported by him or his agent.

(b) *Personal use.* The tax on use of a taxable article does not attach in cases where an individual incidentally manufactures, produces, or imports a taxable article for his personal use or